

**REPORT OF THE AUDIT OF THE
UNION COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2006**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor
John Farris, Secretary, Finance and Administration Cabinet
Honorable Jody L. Jenkins, Union County Judge/Executive
Honorable Frank J. Eiter, Former Union County Judge/Executive
Members of the Union County Fiscal Court

The enclosed report prepared by Simon, Underwood & Associates, PSC, Certified Public Accountants, presents the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Union County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements.

We engaged Simon, Underwood & Associates, PSC, to perform the audit of these financial statements. We worked closely with the firm during our report review process; Simon, Underwood & Associates, PSC, evaluated the Union County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE UNION COUNTY FISCAL COURT

June 30, 2006

Simon, Underwood & Associates, PSC has completed the audit of the Union County Fiscal Court for fiscal year ended June 30, 2006. We have issued unqualified opinions on the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information financial statements of Union County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$33,082,419 as of June 30, 2006. The fiscal court had unrestricted net assets of \$5,013,448 in its governmental activities as of June 30, 2006, with total net assets of \$33,061,806. In its enterprise fund, total cash and cash equivalents were \$20,613 with total assets of \$20,613. The fiscal court had total debt principal as of June 30, 2006 of \$1,305,000 with \$120,000 due within the next year.

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*Simon,
Underwood &
Associates* PSC

Certified Public Accountants and Consultants

To the People of Kentucky

Honorable Ernie Fletcher, Governor

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Honorable Frank J. Eiter, Former Union County Judge/Executive

Members of the Union County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Union County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Union County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Union County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Union County, Kentucky, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the modified cash basis of accounting.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky

Honorable Ernie Fletcher, Governor

John Farris, Secretary, Finance and Administration Cabinet

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Honorable Frank J. Eiter, Former Union County Judge/Executive

Members of the Union County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Union County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated August 11, 2006 on our consideration of Union County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

A handwritten signature in black ink that reads "Simon, Underwood & Associates PSC". The signature is written in a cursive, flowing style.

Simon, Underwood & Associates PSC
Certified Public Accountants and Consultants

August 11, 2006

UNION COUNTY OFFICIALS

For The Year Ended June 30, 2006

Fiscal Court Members:

Frank J. Eiter	County Judge/Executive
Robert Veatch	Magistrate
Jerri Floyd	Magistrate
Dennis Dossett	Magistrate
Joe Wells	Magistrate
Joe Clements	Magistrate

Other Elected Officials:

Brucie W. Moore	County Attorney
James Marty Girten	Jailer
Billy Steve Peak	County Clerk
Sue Beaven	Circuit Court Clerk
Mike Thompson	Sheriff
Ben Waller	Property Valuation Administrator
Stephen Shouse	Coroner

Appointed Personnel:

Lissa Braddock	County Treasurer
Vicki O'Nan	Finance Officer

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Union County Judge/Executive

(270) 580-1051

P.O. BOX 80 - MORGANFIELD, KENTUCKY 42437-0080

FAX (270) 869-0406

Frank J. Eiler
Judge/Executive



Management's Discussion and Analysis June 30, 2006

The financial management of Union County, Kentucky offers readers of Union County's financial statements this narrative overview and analysis of the financial activities of Union County for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights.

- Union County had net assets of \$33,082,419 as of June 30, 2006. The fiscal court had unrestricted net assets of \$5,013,448 in the governmental funds as of June 30, 2006, with total net assets of \$33,061,806. In its enterprise fund, cash and cash equivalents were \$20,613 with total assets of \$20,613. Total debt for governmental funds principal as of June 30, 2006 was \$1,305,000 with \$120,000 due within one year.
- The governmental fund's total net assets increased by \$1,349,492 from the prior year. This increase is primarily due to state projects.
- At the close of the current fiscal year, Union County balance sheet - governmental funds reported current assets of \$5,908,479. Of this amount \$4,973,063 is available for spending at the government's discretion (unreserved fund balance).
- Union County's total indebtedness at the close of fiscal year June 30, 2006 was \$1,305,000, of which \$1,185,000 is long-term debt (due after 1 year) and \$120,000 is short-term debt (to be paid within 1 year). Debt additions were \$0 and debt reductions were \$546,276 for a total net decrease of \$546,276.

Overview of the Financial Statements.

This management discussion and analysis is intended to serve as an introduction to Union County's basic financial statements. Union County's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Union County
Management's Discussion and Analysis
June 30, 2006
(Continued)

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Union County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Union County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Union County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or significant portion of their costs through user fees and charges (*business-type activities*). Union County's governmental activities include general government, protection to persons and property, roads, recreation and culture, general health and sanitation, bus services, social services, debt service, and capital projects. Union County has one business type activity - the Jail Canteen Fund.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Union County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Union County can be divided into broad categories: *governmental funds*, *proprietary funds*, and *fiduciary funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

Union County
Management's Discussion and Analysis
June 30, 2006
(Continued)

Governmental Funds. (Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Union County maintains (6) six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

Major Funds:

- General Fund
- Road and Bridge Fund
- Jail Fund
- Local Government Economic Assistance Fund

Non-major Funds:

- Grant Fund
- Debt Service Fund

Union County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

Proprietary Fund. The proprietary fund provides the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statement provides separate information for the Jail Canteen Fund.

Fiduciary Fund Financial Statements. These funds are used to account for resources held for custodial purposes. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the programs of the County. The accounting used for fiduciary funds is much like that used for proprietary funds. The County's fiduciary fund is the Jail's Inmate Fund.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Union County
Management's Discussion and Analysis
June 30, 2006
(Continued)

Financial Analysis of the County as a Whole.

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. See Table 1 below.

Table 1
Union County's Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2005	2006	2005	2006	2005	2006
Assets						
Current and other assets	\$ 4,571,369	\$ 5,908,479	\$ 9,000	\$ 20,613	\$ 4,580,369	\$ 5,929,092
Capital infrastructure assets	28,992,221	28,458,327			28,992,221	28,458,327
Total Assets	<u>33,563,590</u>	<u>34,366,806</u>	<u>9,000</u>	<u>20,613</u>	<u>33,572,590</u>	<u>34,387,419</u>
Liabilities						
Current and other liabilities	498,132	120,000			498,132	120,000
Long-term liabilities	1,353,144	1,185,000			1,353,144	1,185,000
Total Liabilities	<u>1,851,276</u>	<u>1,305,000</u>			<u>1,851,276</u>	<u>1,305,000</u>
Net Assets						
Invested in capital assets, net of related debt	27,140,945	27,153,327			27,140,945	27,153,327
Restricted	65,264	895,031			65,264	895,031
Unrestricted	4,506,105	5,013,448	9,000	20,613	4,515,105	5,034,061
Total Net Assets	<u>\$ 31,712,314</u>	<u>\$ 33,061,806</u>	<u>\$ 9,000</u>	<u>\$ 20,613</u>	<u>\$ 31,721,314</u>	<u>\$33,082,419</u>

**Union County
Management's Discussion and Analysis
June 30, 2006
(Continued)**

Financial Analysis of the County as a Whole. (Continued)

Changes in Net Assets.

Governmental Activities. Union County's net assets increased by \$1,349,492 in fiscal year 2006. The key element in that increase was the increase in program revenues. See Table 2 below.

**Table 2
Union County Statement of Activities Comparison**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2005	2006	2005	2006	2005	2006
Program Expenses:						
General Government	\$ 2,583,326	\$ 2,525,752			\$ 2,583,326	\$ 2,525,752
Protection to Persons and Prope	909,534	949,278			909,534	949,278
General Health and Sanitation	197,224	117,056			197,224	117,056
Social Services	273,890	223,735			273,890	223,735
Recreation and Culture	142,089	759,795			142,089	759,795
Roads	1,942,116	1,559,690			1,942,116	1,559,690
Bus Services	84,621	71,421			84,621	71,421
Interest on Long-Term Debt	58,715	46,323			58,715	46,323
Capital Projects	618,642	1,157,867			618,642	1,157,867
Jail Canteen			32,843	45,861	32,843	45,861
Total Expenses	6,810,157	7,410,917	32,843	45,861	6,843,000	7,456,778
Program Revenues:						
Charges for Services	270,681	373,870	25,637	57,474	296,318	431,344
Operating Grants and Contributi	2,739,789	2,794,750			2,739,789	2,794,750
Capital Grants and Contribution	747,946	2,483,596			747,946	2,483,596
Total Program Revenues	3,758,416	5,652,216	25,637	57,474	3,784,053	5,709,690
General Revenues:						
Taxes	1,328,882	1,680,080			1,328,882	1,680,080
Excess Fees	221,143	201,956			221,143	201,956
Unrestricted Investment Earning	80,493	198,451			80,493	198,451
Miscellaneous Revenues	720,026	1,027,706			720,026	1,027,706
Total General Revenues	2,350,544	3,108,193			2,350,544	3,108,193
Total Revenues	6,108,960	8,760,409	25,637	57,474	6,134,597	8,817,883
Change in Net Assets	(701,197)	1,349,492	(7,206)	11,613	(708,403)	1,361,105
Beginning Net Assets	32,413,511	31,712,314	16,206	9,000	32,429,717	31,721,314
Ending Net Assets	<u>\$ 31,712,314</u>	<u>\$ 33,061,806</u>	<u>\$ 9,000</u>	<u>\$ 20,613</u>	<u>\$ 31,721,314</u>	<u>\$33,082,419</u>

Business-type Activities. Union County's net assets increased by \$11,613.

Financial Analysis of the County's Funds.

As noted earlier, Union County uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

**Union County
Management's Discussion and Analysis
June 30, 2006
(Continued)**

Financial Analysis of the County's Funds. (Continued)

Governmental Funds Overview. The focus of Union County governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of June 2006 fiscal year, the combined ending fund balances of County governmental funds were \$5,908,479. Approximately 84% (\$4,973,063) of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance of \$935,416 is reserved to indicate that it is not available for new spending because it is committed for debt service and grant projects.

The General Fund is the chief operating fund of Union County. At the end of June 30, 2006 fiscal year, unreserved fund balance of the General Fund was \$827,858. The County received \$1,680,080 in real and personal property, motor vehicle, and other taxes for approximately 53% of the county's general revenues. Various other service fees and miscellaneous revenues contribute to the remaining 47% of revenues.

The Road and Bridge Fund is the fund related to County road and bridge construction and maintenance. Expenditures for fiscal year ended June 30, 2006 totaled \$1,643,131.

The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund's main source of revenue was from housing of prisoners. The General Fund contributed \$610,000 to the jail operations.

The Local Government Economic Assistance Fund's primary source of revenue comes from coal severance and mineral taxes. It had an ending balance of \$590,723.

The Grant Fund is primarily made up of flow-through money for grants such as Ambulance Service Grants where funding is from the state. The ending balance was \$10,072.

Proprietary Funds Overview. The County's proprietary fund statements provide the same type of information found in the government-wide statements, but in more detail.

Union County's proprietary fund is the Jail Canteen Fund. The Jail Canteen Fund's total cash balance was \$20,613.

General Fund Budgetary Highlights.

Union County's General Fund budget was amended during the fiscal year increasing the budgeted amount by \$112,910. Budget amendments were made to various expenditures due to grants awarded, monies provided for projects and excess prior year monies.

Capital Assets and Debt Administration.

Capital Assets. Union County's investment in capital assets for its government and business type activities as of June 30, 2006, amount to \$28,458,327 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles, infrastructure, and construction in progress for senior citizens building.

Union County
Management's Discussion and Analysis
June 30, 2006
(Continued)

Capital Assets and Debt Administration. (Continued)

Capital Assets (Continued)

Additional information about the County's capital assets can be found in Note 3 of this report.

Table 3
Union County's Capital Assets, Net of Accumulated Depreciation

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Infrastructure Assets	\$ 22,069,183	\$ 21,503,173			\$ 22,069,183	\$21,503,173
Land	495,375	386,375			495,375	386,375
Other Equipment	107,528	270,125			107,528	270,125
Bldgs. & Improvements	5,629,546	5,630,224			5,629,546	5,630,224
Vehicles & Equipment	690,589	668,430			690,589	668,430
Total Net Capital Assets	<u>\$ 28,992,221</u>	<u>\$ 28,458,327</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 28,992,221</u>	<u>\$28,458,327</u>

Long-Term Debt. At the end of the 2006 fiscal year, Union County had total bonded debt outstanding of \$1,305,000 from General Obligation Bond principal payments.

Other Matters. The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2007 fiscal year budget:

- The 2007 fiscal year adopted budget continues most services at current levels.
- The cost of housing prisoners and their medical bills will have a negative impact on funding for our detention center.
- The rapid growth of the cost of solid waste to the County is becoming a big expense in the County's operating budget.

Requests For Information.

This financial report is designed to provide a general overview of Union County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Union County Treasurer, P O Box 60, Morganfield, Kentucky 42437.

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UNION COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

UNION COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 5,908,479	\$ 20,613	\$ 5,929,092
Total Current Assets	<u>5,908,479</u>	<u>20,613</u>	<u>5,929,092</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	386,375		386,375
Buildings	5,630,224		5,630,224
Other Equipment	270,125		270,125
Vehicles and Equipment	668,430		668,430
Infrastructure Assets - Net of Depreciation	<u>21,503,173</u>		<u>21,503,173</u>
Total Noncurrent Assets	<u>28,458,327</u>		<u>28,458,327</u>
Total Assets	<u>34,366,806</u>	<u>20,613</u>	<u>34,387,419</u>
LIABILITIES			
Current Liabilities:			
Bonds Payable	<u>120,000</u>		<u>120,000</u>
Total Current Liabilities	<u>120,000</u>		<u>120,000</u>
Noncurrent Liabilities:			
Bonds Payable	<u>1,185,000</u>		<u>1,185,000</u>
Total Noncurrent Liabilities	<u>1,185,000</u>		<u>1,185,000</u>
Total Liabilities	<u>1,305,000</u>		<u>1,305,000</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	27,153,327		27,153,327
Restricted For:			
Debt Service	51,032		51,032
Grant Projects	843,999		843,999
Unrestricted	<u>5,013,448</u>	<u>20,613</u>	<u>5,034,061</u>
Total Net Assets	<u>\$ 33,061,806</u>	<u>\$ 20,613</u>	<u>\$ 33,082,419</u>

The accompanying notes are an integral part of the financial statements.

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UNION COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006

UNION COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 2,525,752	\$ 17,123	\$ 998,370	\$ 505,000
Protection to Persons and Property	949,278	167,685	83,356	750,000
General Health and Sanitation	117,056	91,853		
Social Services	223,735		79,971	
Recreation and Culture	759,795	97,209	1,282	
Roads	1,559,690		1,631,771	
Bus Services	71,421			
Interest on Long-term Debt	46,323			
Capital Projects	1,157,867			1,228,596
Total Governmental Activities	7,410,917	373,870	2,794,750	2,483,596
Business-type Activities:				
Jail Canteen	45,861	57,474		
Total Business-type Activities	45,861	57,474		
Total Primary Government	\$ 7,456,778	\$ 431,344	\$ 2,794,750	\$ 2,483,596

General Revenues:

Taxes:
 Real Property Taxes
 Personal Property Taxes
 Motor Vehicle Taxes
 Other Taxes
 Excess Fees
 Donation
 Miscellaneous Revenues
 Interest Received

 Total General Revenues
 Change in Net Assets
 Net Assets - Beginning

 Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

UNION COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (1,005,259)	\$	\$ (1,005,259)
51,763		51,763
(25,203)		(25,203)
(143,764)		(143,764)
(661,304)		(661,304)
72,081		72,081
(71,421)		(71,421)
(46,323)		(46,323)
70,729		70,729
(1,758,701)		(1,758,701)
	11,613	11,613
	11,613	11,613
(1,758,701)	11,613	(1,747,088)
369,289		369,289
138,768		138,768
105,624		105,624
1,066,399		1,066,399
201,956		201,956
14,971		14,971
1,012,735		1,012,735
198,451		198,451
3,108,193		3,108,193
1,349,492	11,613	1,361,105
31,712,314	9,000	31,721,314
\$ 33,061,806	\$ 20,613	\$ 33,082,419

The accompanying notes are an integral part of the financial statements.

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UNION COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

UNION COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

	General Fund	Road And Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
ASSETS				
Cash and Cash Equivalents	\$ 1,075,881	\$ 3,553,017	\$ 627,754	\$ 590,723
Total Assets	<u>\$ 1,075,881</u>	<u>\$ 3,553,017</u>	<u>\$ 627,754</u>	<u>\$ 590,723</u>
FUND BALANCES				
Fund Balances:				
Reserved for:				
Encumbrances	\$ 52,500	\$ 12,936	\$ 33	\$ 25,948
Grant Projects	195,523		609,193	39,283
Unreserved:				
General Fund	827,858			
Special Revenue Funds		3,540,081	18,528	525,492
Debt Service Fund				
Total Fund Balances	<u>\$ 1,075,881</u>	<u>\$ 3,553,017</u>	<u>\$ 627,754</u>	<u>\$ 590,723</u>

The accompanying notes are an integral part of the financial statements.

UNION COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2006
(Continued)

Non- Major Funds	Total Governmental Funds
<u>\$ 61,104</u>	<u>\$ 5,908,479</u>
<u>\$ 61,104</u>	<u>\$ 5,908,479</u>
\$	\$ 91,417
	843,999
	827,858
10,072	4,094,173
<u>51,032</u>	<u>51,032</u>
<u>\$ 61,104</u>	<u>\$ 5,908,479</u>

Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 5,908,479
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	51,197,789
Accumulated Depreciation	(22,739,462)
Liabilities:	
Due Within One Year - Bonds	(120,000)
Due In More Than One Year - Bonds	(1,185,000)
Net Assets Of Governmental Activities	<u>\$ 33,061,806</u>

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UNION COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

UNION COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	General Fund	Road And Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
REVENUES				
Taxes	\$ 1,594,067	\$	\$	\$
In Lieu Tax Payments	86,013			
Excess Fees	201,956			
Licenses and Permits	16,215	448		
Intergovernmental	796,832	1,412,978	921,232	2,151,479
Charges for Services			49,792	183,144
Miscellaneous	480,371	86,929	22,975	453,070
Interest	16,128	134,888	17,955	29,480
Total Revenues	<u>3,191,582</u>	<u>1,635,243</u>	<u>1,011,954</u>	<u>2,817,173</u>
EXPENDITURES				
General Government	985,371			654,658
Protection to Persons and Property	46,383		682,904	157,676
General Health and Sanitation				117,056
Social Services	2,470			206,309
Recreation and Culture	500			739,069
Roads		1,092,725		
Bus Services				71,421
Debt Service	362,165		81,883	
Capital Projects		397,198	40,806	719,863
Administration	319,424	153,208	207,294	220,676
Total Expenditures	<u>1,716,313</u>	<u>1,643,131</u>	<u>1,012,887</u>	<u>2,886,728</u>
Excess (Deficiency) of Revenues Over Expenditure Before Other Financing Sources (Uses)	<u>1,475,269</u>	<u>(7,888)</u>	<u>(933)</u>	<u>(69,555)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	410,000	280,000	610,000	
Transfers To Other Funds	(974,959)	(410,000)		
Total Other Financing Sources (Uses)	<u>(564,959)</u>	<u>(130,000)</u>	<u>610,000</u>	
Net Change in Fund Balances	910,310	(137,888)	609,067	(69,555)
Fund Balances - Beginning	165,571	3,690,905	18,687	660,278
Fund Balances - Ending	<u>\$ 1,075,881</u>	<u>\$ 3,553,017</u>	<u>\$ 627,754</u>	<u>\$ 590,723</u>

The accompanying notes are an integral part of the financial statements.

UNION COUNTY
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 For The Year Ended June 30, 2006
 (Continued)

Non- Major Funds	Total Governmental Funds
\$	\$ 1,594,067
	86,013
	201,956
	16,663
94,440	5,376,961
10,017	242,953
	1,043,345
	198,451
104,457	8,760,409
	1,640,029
10,689	897,652
	117,056
	208,779
	739,569
	1,092,725
	71,421
148,551	592,599
	1,157,867
5,000	905,602
164,240	7,423,299
(59,783)	1,337,110
84,959	1,384,959
	(1,384,959)
84,959	
25,176	1,337,110
35,928	4,571,369
\$ 61,104	\$ 5,908,479

The accompanying notes are an integral part of the financial statements.

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**UNION COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2006

UNION COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 1,337,110
--	--------------

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	646,729
Depreciation Expense	(1,180,623)

Financing Obligations and bond principal payments are expensed in the Governmental Funds as a use of current financial resources. However, these transactions have no effect on net assets.

Financing Obligations	436,276
Bond Payments	<u>110,000</u>

Change in Net Assets of Governmental Activities	<u><u>\$ 1,349,492</u></u>
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UNION COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

UNION COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

	Business-Type Activity - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 20,613
Total Current Assets	<u>20,613</u>
Net Assets	
Unrestricted	20,613
Total Net Assets	<u><u>\$ 20,613</u></u>

The accompanying notes are an integral part of the financial statements.

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UNION COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

UNION COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	Business-Type Activity - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 57,474
Total Operating Revenues	<u>57,474</u>
Operating Expenses	
Cost of Sales	35,345
Educational and Recreational	6,727
Miscellaneous	<u>3,789</u>
Total Operating Expenses	<u>45,861</u>
Operating Income	<u>11,613</u>
Change In Net Assets	11,613
Total Net Assets - Beginning	<u>9,000</u>
Total Net Assets - Ending	<u><u>\$ 20,613</u></u>

The accompanying notes are an integral part of the financial statements.

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UNION COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

UNION COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	Business-Type Activity - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 57,474
Cost of Sales	(35,345)
Educational and Recreational	(6,727)
Miscellaneous	(3,789)
Net Cash Provided By Operating Activities	<u>11,613</u>
Net Increase in Cash and Cash Equivalents	11,613
Cash and Cash Equivalents - July 1, 2005	<u>9,000</u>
Cash and Cash Equivalents - June 30, 2006	<u><u>\$ 20,613</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	<u>\$ 11,613</u>
Total Cash Provided By Operating Activities	<u><u>\$ 11,613</u></u>

The accompanying notes are an integral part of the financial statements.

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UNION COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

UNION COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

	<u>Agency Fund</u> <u>Inmate</u> <u>Account Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	<u>\$ 2,818</u>
 Total Assets	 <u>2,818</u>
 Liabilities	
Amounts Held In Custody For Others	<u>2,818</u>
Total Liabilities	<u>2,818</u>
 Net Assets	
Total Net Assets	<u><u>\$ 0</u></u>

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UNION COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and its fund financial statements in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets among other items are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Union County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. The county has no component units.

C. Union County Elected Officials

Kentucky Law provides for election of the officials below from the geographic area constituting Union County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Union County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as do the proprietary fund financial statements. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary Funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, 2) operating grants and contributions, and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The governmental funds are reported using the current financial resources measurement focus and the modified cash basis of accounting. Under this basis of accounting, revenues are recorded when received and expenditures are recorded when paid.

The government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road and Bridge Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for general health and sanitation, social services, and economic assistance expenses of the county. The primary sources of revenue are state grants, coal and mineral severance taxes, landfill user fees, and recreational area user fees. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

The government also has the following non-major funds: Grant Fund and Debt Service Fund.

Special Revenue Funds:

The Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, and Grant Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

All proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in trust or custodial capacity for individuals, private organizations, or other governments. Unlike other funds, the agency fund reports assets and liabilities only; therefore it has no measurement focus.

The primary government reports the following fiduciary fund:

Inmate Account Fund - This fund accounts for funds received from the inmates.

E. Deposits and Investments

For the purpose of the statement of cash flows, the government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	50
Buildings and Building Improvements	\$ 25,000	50
Machinery and Equipment	\$ 10,000	15
Vehicles	\$ 10,000	5
Infrastructure	\$ 10,000	30

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Debt Service Fund was not budgeted since bond payments were budgeted in the General Fund.

J. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered joint ventures of the Union County Fiscal Court:

West Kentucky Regional Industrial Authority

The Union County Fiscal Court (Fiscal Court) has retained an ongoing financial interest in the West Kentucky Regional Industrial Authority (Industrial Authority). The Industrial Authority is a joint venture between the Fiscal Court and Union, Webster, and McLean County Fiscal Courts. Upon dissolution of the Industrial Authority, assets will be returned to the participating Fiscal Courts on a pro-rata basis.

North Pennyriple E-911 Fund

The Union County Fiscal Court (Fiscal Court) has retained an ongoing financial interest in the North Pennyriple E-911. The North Pennyriple E-911 is a joint venture between the Fiscal Court, the Kentucky State Police, Lyon, Caldwell, Crittenden, and Livingston County Fiscal Courts. This fund was created to distribute E-911 taxes collected on phone services for the aforementioned counties and the Kentucky State Police and to pay related E-911 expenses.

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 2. Deposits and Investments

A. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risks - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposit may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). These requirements were met; however, as of June 30, 2006, the collateral and the FDIC insurance together did not equal or exceed the amount on deposit, leaving \$618,861 exposed to custodial credit risk as follows:

- Uninsured and unsecured - \$618,861

B. Investments

As of June 30, 2006, the County had the following investments included in cash and cash equivalents:

<u>Investments</u>	<u>Maturity</u>	<u>Fair Value (Cost)</u>
Certificates of Deposit	Less than 90 days	\$ 2,750,000
Certificates of Deposit	Greater than 90 days	\$ 1,500,000

Interest Rate Risk

The County does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates.

Credit Risk

KRS 66.480 limits the County's investments in the following: obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government. Certificates of Deposit issued by or other interest-bearing accounts of any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity. Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency. Banker's acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency. Commercial paper rated in the highest category by a nationally

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 2. Deposits and Investments (Continued)

B. Investments (Continued)

recognized rating agency. Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities. Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency. Shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments. Also, the County is limited to investing no more than 20% in any one of the preceding investments as allowed by KRS 66.480. The County had no investment policy that would further limit its investment choices. In general, certificates of deposit are not subject to investment credit risk or concentration of credit risk.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the county will not be able to recover the value of its investments held in the possession of an outside party. The County does not have an investment policy for custodial credit risk. The County's certificates of deposit are included in the custodial credit risk disclosure for deposits.

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Reporting Entity		
	Beginning Balance	Increases	Decreases
Primary Government:			
<u>Governmental Activities:</u>			
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 386,375	\$	\$ 386,375
Construction In Progress	109,000		(109,000)
Total Capital Assets Not Being Depreciated	495,375		386,375
Capital Assets, Being Depreciated:			
Buildings	6,789,989	109,000	6,898,989
Other Equipment	156,164	173,089	329,253
Vehicles and Equipment	2,732,910	87,603	2,820,513
Infrastructure	40,376,622	386,037	40,762,659
Total Capital Assets Being Depreciated	50,055,685	755,729	50,811,414
Less Accumulated Depreciation For:			
Buildings	(1,160,443)	(108,322)	(1,268,765)
Other Equipment	(48,636)	(10,492)	(59,128)
Vehicles and Equipment	(2,042,321)	(109,762)	(2,152,083)
Infrastructure	(18,307,439)	(952,047)	(19,259,486)
Total Accumulated Depreciation	(21,558,839)	(1,180,623)	(22,739,462)
Total Capital Assets, Being Depreciated, Net	28,496,846	(424,894)	28,071,952
Governmental Activities Capital Assets, Net	\$ 28,992,221	\$ (424,894)	\$ 28,458,327

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$	75,031
Protection to Persons and Property		51,626
Social Services		14,956
Recreation and Culture		20,226
Roads, Including Depreciation of General Infrastructure Assets		<u>1,018,784</u>
Total Depreciation Expense - Governmental Activities	\$	<u><u>1,180,623</u></u>

Note 4. Short-term Debt

On July 1, 2005, Union County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$707,400, with principal being due on January 31, 2006. While the County did not use the borrowed funds in order to meet current General Fund expenses, they were able to reinvest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program of \$3,240.

Changes in Short-term liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental Activities:</u>				
Kentucky Advance Revenue Program	\$	\$ 707,400	\$ 707,400	\$
Governmental Activities Short-term Liabilities	<u>\$ 0</u>	<u>\$ 707,400</u>	<u>\$ 707,400</u>	<u>\$ 0</u>

Note 5. Long-term Debt

A. General Obligation Refunding Bonds, Series 2003

On March 19, 2003, the Union County Fiscal Court issued General Obligation Refunding Bonds, Series 2003 in the amount of \$1,630,000. The bonds were dated February 1, 2003, payable semi-annually on March 1 and September 1, beginning September 1, 2003. The interest rate on the bonds ranges from 1.00% to 3.70%. The bonds were issued in denominations of \$5,000 each or integral multiples thereof and mature at various dates beginning February 1, 2003 through February 1, 2015. The bonds are subject to early redemption prior to maturity. Principal outstanding as of June 30, 2006 was \$1,305,000. Future debt service requirement are as follows:

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 5. Long-term Debt (Continued)

A. General Obligation Refunding Bonds, Series 2003 (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 120,000	\$ 36,904
2008	125,000	34,694
2009	125,000	32,038
2010	135,000	28,859
2011	135,000	25,063
2012-2016	665,000	53,089
Totals	<u>\$ 1,305,000</u>	<u>\$ 210,647</u>

B. Series 1995 First Mortgage Bonds Defeasance

On March 1, 1995, the Union County Public Properties Corporation issued Series 1995 First Mortgage Revenue Bonds in the amount of \$2,040,000, for the purpose of funding the construction of a new courthouse annex building.

On March 19, 2003 the Union County Fiscal Court deposited \$1,760,000 in the custody of the escrow agent, Old National Trust for the defeasance of the Series 1995 First Mortgage Revenue Bonds. This amount has been determined to meet all bond and interest requirements maturing on and after July 1, 2003 to and including September 1, 2005. Principal outstanding as of June 30, 2006 was \$0.

C. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 1,415,000	\$	\$ 110,000	\$ 1,305,000	\$ 120,000
Financing Obligations (Note 6)	436,276		436,276		
Governmental Activities					
Long-term Liabilities	<u>\$ 1,851,276</u>	<u>\$ 0</u>	<u>\$ 546,276</u>	<u>\$ 1,305,000</u>	<u>\$ 120,000</u>

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 6. Financing Obligations

A. Health Department Building

On November 18, 1997, the Union County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust program for the purpose of financing the addition and renovation of the County Health Department. The lease principal was \$160,000. The interest rate is variable. The termination date of the lease is January 20, 2006. The Union County Health Department is currently making the lease payments. Principal outstanding as of June 30, 2006 was \$0.

B. Courthouse Renovation

On August 14, 2001, the Union County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust program for the purpose of financing the renovation of the Union County Courthouse. The lease principal amount was \$1,335,700. The interest rate is variable. The Administrative Office of the Courts (AOC) makes payment on behalf of the Union County Fiscal Court. The lease termination date is August 20, 2006. Principal outstanding as of June 30, 2006 was \$0.

C. Jail Renovation

On April 30, 2004, the Union County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust program for the purpose of financing the renovation of the Union County Jail. The lease principal amount was \$80,000. The interest rate is variable. The lease termination date is November 20, 2005. Principal outstanding as of June 30, 2006 was \$0.

Note 7. Commitments and Contingencies

A. Ambulance Service Contract

Union County is currently operating under a lease agreement with the Union County Methodist Hospital regarding ambulance service for Union County including garage facilities. The contract states the County is liable for monthly deficits of the ambulance service. The contract provides no maximum expense for which the County is liable. During fiscal year ended June 30, 2006, the County paid \$85,000 to the Union County Methodist Hospital for ambulance support. The County also paid \$11,403 directly to vendors for program support of the ambulance service.

B. Solid Waste Interlocal Agreement

In response to KRS 224.830 and reducing solid waste stream at municipal landfills by 25%, the County of Union entered into an interlocal agreement with Henderson and Webster Counties and Cities of Henderson and Corydon establishing a Solid Waste Recycling Facility and Program for these areas. All parties have agreed to fund the operational expenses of this organization. The County is responsible for 19.3% of the Solid Waste Recycling Facility and Program operating expenses. Expenses incurred under this agreement for fiscal year ended June 30, 2006, were \$14,255.

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 8. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 25.01 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at 502-564-4646.

Note 9. Deferred Compensation

On June 24, 1986, the Union County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 10. Insurance

For the fiscal year ended June 30, 2006, Union County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

UNION COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006

UNION COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2006

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,297,722	\$ 1,297,722	\$ 1,594,067	\$ 296,345
In Lieu Tax Payments	78,500	78,500	86,013	7,513
Excess Fees	131,760	131,760	201,956	70,196
Licenses and Permits	7,250	7,250	16,215	8,965
Intergovernmental Revenue	645,660	742,570	796,832	54,262
Miscellaneous	257,000	273,000	480,371	207,371
Interest	11,000	11,000	16,128	5,128
Total Revenues	<u>2,428,892</u>	<u>2,541,802</u>	<u>3,191,582</u>	<u>649,780</u>
EXPENDITURES				
General Government	905,181	1,026,169	985,371	40,798
Protection to Persons and Property	47,528	48,257	46,383	1,874
Social Services	3,500	3,500	2,470	1,030
Recreation and Culture	502	502	500	2
Debt Service	584,959	584,959	362,165	222,794
Administration	359,865	351,058	319,424	31,634
Total Expenditures	<u>1,901,535</u>	<u>2,014,445</u>	<u>1,716,313</u>	<u>298,132</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>527,357</u>	<u>527,357</u>	<u>1,475,269</u>	<u>947,912</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	130,000	130,000	410,000	280,000
Transfers To Other Funds	<u>(741,864)</u>	<u>(741,864)</u>	<u>(974,959)</u>	<u>(233,095)</u>
Total Other Financing Sources (Uses)	<u>(611,864)</u>	<u>(611,864)</u>	<u>(564,959)</u>	<u>46,905</u>
Net Changes in Fund Balance	(84,507)	(84,507)	910,310	994,817
Fund Balance - Beginning	<u>84,507</u>	<u>84,507</u>	<u>165,571</u>	<u>81,064</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,075,881</u>	<u>\$ 1,075,881</u>

UNION COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

	ROAD AND BRIDGE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
License and Permits	\$ 900	\$ 900	\$ 448	\$ (452)
Intergovernmental Revenue	883,275	883,275	1,412,978	529,703
Miscellaneous	1,550	1,550	86,929	85,379
Interest	50,250	50,250	134,888	84,638
Total Revenues	935,975	935,975	1,635,243	699,268
EXPENDITURES				
Roads	1,235,648	1,235,648	1,092,725	142,923
Capital Projects	485,620	485,620	397,198	88,422
Administration	200,370	200,370	153,208	47,162
Total Expenditures	1,921,638	1,921,638	1,643,131	278,507
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(985,663)	(985,663)	(7,888)	977,775
OTHER FINANCING SOURCES (USES)				
Bond Sale Surplus	400,620	400,620		(400,620)
Transfers From Other Funds			280,000	280,000
Transfers To Other Funds	(130,000)	(130,000)	(410,000)	(280,000)
Total Other Financing Sources (Uses)	270,620	270,620	(130,000)	(400,620)
Net Changes in Fund Balance	(715,043)	(715,043)	(137,888)	577,155
Fund Balance - Beginning	715,043	715,043	3,690,905	2,975,862
Fund Balance - Ending	\$ 0	\$ 0	\$ 3,553,017	\$ 3,553,017

UNION COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 839,500	\$ 904,500	\$ 921,232	\$ 16,732
Charges for Services	33,000	33,000	49,792	16,792
Miscellaneous	6,500	6,500	22,975	16,475
Interest	100	100	17,955	17,855
Total Revenues	879,100	944,100	1,011,954	67,854
EXPENDITURES				
Protection to Persons and Property	637,214	704,048	682,904	21,144
Debt Service	100,000	84,547	81,883	2,664
Capital Projects	650,000	650,000	40,806	609,194
Administration	243,750	257,369	207,294	50,075
Total Expenditures	1,630,964	1,695,964	1,012,887	683,077
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(751,864)	(751,864)	(933)	750,931
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	741,864	741,864	610,000	(131,864)
Total Other Financing Sources (Uses)	741,864	741,864	610,000	(131,864)
Net Changes in Fund Balance	(10,000)	(10,000)	609,067	619,067
Fund Balance - Beginning	10,000	10,000	18,687	8,687
Fund Balance - Ending	\$ 0	\$ 0	\$ 627,754	\$ 627,754

UNION COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 4,717,338	\$ 4,884,531	\$ 2,151,479	\$ (2,733,052)
Charges for Services	157,200	157,200	183,144	25,944
Miscellaneous	431,100	431,100	453,070	21,970
Interest	4,700	4,700	29,480	24,780
Total Revenues	<u>5,310,338</u>	<u>5,477,531</u>	<u>2,817,173</u>	<u>(2,660,358)</u>
EXPENDITURES				
General Government	759,235	759,534	654,658	104,876
Protection to Persons and Property	190,231	190,676	157,676	33,000
General Health and Sanitation	113,750	128,916	117,056	11,860
Social Services	190,080	217,494	206,309	11,185
Recreation and Culture	718,566	844,291	739,069	105,222
Roads	156,976	151,976		151,976
Bus Services	70,000	71,421	71,421	
Capital Projects	3,402,888	3,429,140	719,863	2,709,277
Administration	274,507	249,978	220,676	29,302
Total Expenditures	<u>5,876,233</u>	<u>6,043,426</u>	<u>2,886,728</u>	<u>3,156,698</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(565,895)</u>	<u>(565,895)</u>	<u>(69,555)</u>	<u>496,340</u>
Net Changes in Fund Balances	(565,895)	(565,895)	(69,555)	496,340
Fund Balances - Beginning	<u>565,895</u>	<u>565,895</u>	<u>660,278</u>	<u>94,383</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 590,723</u>	<u>\$ 590,723</u>

UNION COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2006

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Debt Service Fund.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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**UNION COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2006

UNION COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2006

	Grant Fund	Debt Service Fund	Total Non-Major Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 10,072	\$ 51,032	\$ 61,104
Total Assets	<u>\$ 10,072</u>	<u>\$ 51,032</u>	<u>\$ 61,104</u>
FUND BALANCES			
Unreserved:			
Special Revenue Fund	\$ 10,072	\$	\$ 10,072
Debt Service Fund		51,032	51,032
Total Fund Balances	<u>\$ 10,072</u>	<u>\$ 51,032</u>	<u>\$ 61,104</u>

The accompanying notes are an integral part of the financial statements.

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UNION COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2006

UNION COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2006

	Grant Fund	Debt Service Fund	Total Non-Major Governmental Funds
REVENUES			
Intergovernmental	\$ 5,000	\$ 89,440	\$ 94,440
Charges for Services	10,017		10,017
Total Revenues	<u>15,017</u>	<u>89,440</u>	<u>104,457</u>
EXPENDITURES			
Protection to Persons and Property	10,689		10,689
Debt Service		148,551	148,551
Administration	5,000		5,000
Total Expenditures	<u>15,689</u>	<u>148,551</u>	<u>164,240</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(672)</u>	<u>(59,111)</u>	<u>(59,783)</u>
Other Financing Sources (Uses)			
Transfers From Other Funds		84,959	84,959
Total Other Financing Sources (Uses)		<u>84,959</u>	<u>84,959</u>
Net Change in Fund Balances	(672)	25,848	25,176
Fund Balances - Beginning	10,744	25,184	35,928
Fund Balances - Ending	<u>\$ 10,072</u>	<u>\$ 51,032</u>	<u>\$ 61,104</u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



*Simon,
Underwood &
Associates* PSC

Certified Public Accountants and Consultants

The Honorable Jody L. Jenkins, Union County Judge/Executive
The Honorable Frank J. Eiter, Former Union County Judge/Executive
Members of the Union County Fiscal Court

Report On Internal Control Over Financial Reporting
And On Compliance and Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Union County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated August 11, 2006. Union County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Union County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Union County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of material noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report On Internal Control Over Financial Reporting
And On Compliance and Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Simon, Underwood & Associates PSC

Simon, Underwood & Associates PSC
Certified Public Accountants and Consultants

August 11, 2006

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

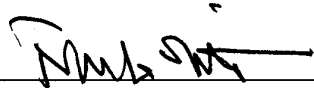
UNION COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2006**


CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
AND DEVELOPMENT PROGRAMS
UNION COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2006

The Union County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer